

STATE OF ARIZONA
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JAN 18 2001

DEPT. OF INSURANCE
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STATE OF ARIZONA
DEPARTMENT OF INSURANCE

In the Matter of:

AUTO-OWNERS INSURANCE COMPANY,
NAIC #18988,

OWNERS INSURANCE COMPANY
NAIC # 32700

Respondents.

) Docket No. 01A-013-INS

) **CONSENT ORDER**

Examiners for the Department of Insurance (the "Department") conducted a market conduct examination of the Auto-Owners Insurance Company ("AOIC") and Owners Insurance Company ("OIC"), collectively referred to as "Respondents." In the Report of the Examination of the Market Conduct Affairs of AOIC and OIC, the Examiners allege that the Respondents violated A.R.S. §§ 20-385, 20-400.01, 20-1113, 20-1652, 20-1653, 20-1674, and the prior Consent Order, Docket No 7379 filed April 10, 1991.

AOIC and OIC wish to resolve this matter without formal proceedings, neither admit nor deny the following Findings of Fact and consent to the entry of the following Conclusions of Law and Order.

FINDINGS OF FACT

1. AOIC and OIC are authorized to transact property and casualty insurance pursuant to Certificates of Authority issued by the Director.
2. The Examiners were authorized by the Director to conduct a market conduct examination of AOIC and OIC. The initial on-site examination was concluded on April 1, 1994 and a Report of Examination was written. This examination covered

1 the following time periods and product lines:

- 2 a. Open and closed claim files, December 26, 1990 – January 12, 1994.
- 3 b. Personal lines underwriting and rating files, July 1, 1993 – January 1,
4 1994.
- 5 c. Commercial lines underwriting and rating files, November 16, 1990 –
6 May 15, 1994.
- 7 d. Personal lines cancellation files, September 3, 1991 – December 20,
8 1993.
- 9 e. Commercial lines cancellation files, August 15, 1991 – January 17,
10 1994.

11 The Examiners' findings from this portion of the Examination are listed in
12 Findings of Fact 5 – 12.

13 3. The onsite examination was reopened in 1997 to permit the Examiners to
14 review personal automobile and property cancellation files, which were not made
15 available for their review during the initial examination. The Examiners reviewed
16 cancellation files dated March 18, 1992 through January 23, 1997. The re-opened
17 examination was concluded on February 28, 1997. The Examiners prepared an
18 Addendum to the Report of Examination. The Examiners' findings from this portion of
19 the Examination are listed in Findings of Fact 13.

20 4. Following a market conduct examination of AOIC and OIC as of January
21 16, 1990, the Director entered a Consent Order, Docket No. 7379, which was filed on
22 April 10, 1991 (the "1991 Order"). Section 1 of the "Order" section stated as follows:

23 "Respondents shall cease and desist in future from failing to comply with all laws
24 cited in the Conclusions of Law Section of this Order."

25 The following laws were cited in the 1991 Order that have relevance to this
Order: A.R.S. §§ 20-385(A), 20-400.01(A), 20-400.01(B)(1), 20-400.01(C), and
20-1674(A).

26 5. The Examiners reviewed 12 personal automobile policies issued by the
27 Company during the time frame of the examination and found that AOIC charged
28 premiums to 11 insureds that differed from its filed rates and rules. Four insureds were

1 overcharged \$155.49.

2 6. The Examiners reviewed 32 homeowners and dwelling fire policies issued
3 by the Companies during the time frame of the examination and found as follows:

4 a. OIC failed to rate 24 policies in a manner consistent with its filed rates
5 and rules.

6 b. Seven AOIC insureds were overcharged \$284.20 and one OIC
7 insured was overcharged \$34.00.

8 7. The Examiners reviewed two commercial general liability policies issued by
9 the Company during the time frame of the examination and found that AOIC failed to
10 attach all applicable endorsements to two policies.

11 8. The Examiners reviewed 28 commercial insurance policies that were issued
12 by the Companies during the time frame of the examination and found as follows:

13 a. AOIC issued 26 policies at rates that were not consistent with its filed
14 rates and rules.

15 b. OIC issued two policies that were not consistent with its filed rates
16 and rules.

17 c. Three AOIC insureds were overcharged \$763.00 and two OIC
18 insureds were overcharged \$56.00.

19 9. The Examiners reviewed 86 commercial insurance policies issued by the
20 Companies during the time frame of the examination and found as follows:

21 a. AOIC failed to adequately document the credits or debits applied
22 according to risk characteristics in the development of 77 premiums.

23 b. OIC failed to adequately document the credits or debits applied
24 according to risk characteristics in the development of 9 premiums.

25 10. The Examiners reviewed 36 Businessowner policies issued by the

1 Companies during the time frame of the examination and found as follows:

- 2 a. AOIC failed to apply the correct territory classification to 26 policies.
- 3 b. OIC failed to apply the correct territory classification to ten policies.
- 4 c. AOIC overcharged six insureds \$278.22 and OIC overcharged one
5 insured \$123.95.

6 11. The Examiners reviewed homeowners policies that were canceled or non-
7 renewed for conditions of the premises during the time frame of the examination, and
8 found that AOIC non-renewed two policies for condition of premises and failed to give
9 the insureds the required 30 days to remedy the identified conditions.

10 12. The Examiners reviewed a sample of the commercial policies canceled by
11 the Company during the time frame of the examination and found as follows:

- 12 a. AOIC canceled four policies and failed to provide the insureds with the
13 specific reasons for the cancellations.
- 14 b. OIC canceled two policies and failed to provide the insureds with the
15 specific reasons for the cancellations.

16 13. The Examiners reviewed 147 homeowner policies canceled for reasons
17 other than non-payment of premium by the Company during the time frame of the
18 examination and found as follows:

- 19 a. AOIC and OIC canceled 12 policies and failed to notify the insureds of
20 the specific reason for the cancellation.
- 21 b. AOIC and OIC non-renewed two policies for the condition of the
22 premises (roofs), and failed to provide a period 30 days for the insureds to make the
23 necessary repairs.

24 **CONCLUSIONS OF LAW**

- 25 1. AOIC and OIC violated A.R.S. § 20-385(A) and the prior Consent Order by

1 determining personal automobile, homeowners, and dwelling fire insurance premiums
2 other than according to its filed rates and rules.

3 2. AOIC violated A.R.S. § 20-1113(B)(7) by failing to attach all applicable
4 endorsements to its commercial policies.

5 3. AOIC and OIC violated A.R.S. §§ 20-385(A), 20-400.01(A), and the prior
6 Consent Order by developing premiums for commercial insurance policies in a manner
7 not consistent with its filed rates and rules.

8 4. AOIC and OIC violated A.R.S. §§ 20-400.01(B), 20-400.01(D), and the prior
9 Consent Order by making adjustment to full manual premiums developed for
10 commercial risks without adequately documenting the facts that support the
11 adjustment.

12 5. AOIC and OIC violated A.R.S. § 20-1674(A) and the prior Order by
13 canceling commercial policies and failing to provide the insureds with the specific
14 reason(s) for the cancellations.

15 6. AOIC and OIC violated A.R.S. § 20-1652(B) by failing to provide insureds
16 whose homeowners policies had been canceled for condition of premises, 30 days to
17 correct the identified condition.

18 7. AOIC and OIC violated A.R.S. § 20-1653 by canceling homeowners policies
19 without notifying the insureds of the reason(s) for the cancellation.

20 8. Grounds exist for the entry of the following Order, in accordance with A.R.S.
21 §§ 20-220 and 20-400.03.

22
23 **ORDER**

24 **IT IS ORDERED THAT:**

25 1. Auto-Owners Insurance Company and Owners Insurance Company shall

1 cease and desist from the following:

2 a. Rating personal automobile, homeowners, and dwelling fire policies
3 other than pursuant to their filed rates and rules.

4 b. Developing premiums for commercial policies that are not consistent
5 with their filed rates and rules.

6 c. Making adjustments to full manual premiums developed for
7 commercial risks without adequately documenting the facts that support the
8 adjustments.

9 d. Failing to provide the specific reason(s) to the insureds for the
10 cancellation of a commercial insurance policy.

11 e. Failing to provide policyholders 30 days to remedy the condition of
12 premises, prior to canceling or non-renewing a homeowners policy.

13 f. Failing to notify insureds of the specific reason(s) for the cancellation
14 of a homeowners policy.

15 2. Within 90 days of the filed date of this Order, AOIC and OIC shall submit to
16 the Arizona Department of Insurance, for approval, evidence that corrections have
17 been implemented and communicated to the appropriate personnel, regarding the
18 issues outlined in Item 1 of the Order section of this Consent Order. Evidence of
19 corrective action and communication thereof includes, but is not limited to, memos,
20 bulletins, E-mails, correspondence, procedures manuals, print screens, and training
21 materials.

22 3. The Department shall be permitted, through authorized representatives, to
23 verify that AOIC and OIC have complied with all provisions of this Order.

24 4. AOIC and OIC shall pay a civil penalty of \$10,000 to the Director for deposit
25 in the State General Fund in accordance with A.R.S. § 20-220(B). The civil penalty

1 shall be provided to the Market Conduct Examinations Division of the Department prior
2 to the filing of this Order.

3 5. The Report of Examination of the Market Conduct Affairs of AOIC and OIC
4 as of April 1, 1994, the Addendum to the Examination dated February 28, 1997, and
5 the letter submitted in response to the Report of Examination shall be filed with the
6 Department after the Director has filed this Order.

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8 DATED at Phoenix, Arizona this 17th day of January, 2001.

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11 Charles R. Cohen
12 Director of Insurance
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CONSENT TO ORDER

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2 1. Auto-Owners Insurance Company and Owners Insurance Company have
3 reviewed the foregoing Order.

4 2. Auto-Owners Insurance Company and Owners Insurance Company admit
5 the jurisdiction of the Director of Insurance, State of Arizona, neither admit nor deny
6 the foregoing Findings of Fact, and consent to the entry of the Conclusions of Law and
7 Order.

8 3. Auto-Owners Insurance Company and Owners Insurance Company are
9 aware of the right to a hearing, at which they may be represented by counsel, present
10 evidence, and cross-examine witnesses. Auto-Owners Insurance Company and
11 Owners Insurance Company irrevocably waive the right to such notice and hearing and
12 to any court appeals related to this Order.

13 4. Auto-Owners Insurance Company and Owners Insurance Company state
14 that no promise of any kind or nature whatsoever was made to them to induce them to
15 enter into this Consent Order and that they have entered into this Consent Order
16 voluntarily.

17 5. Auto-Owners Insurance Company and Owners Insurance Company
18 acknowledge that the acceptance of this Order by the Director of the Arizona
19 Department of Insurance is solely for the purpose of settling this matter and does not
20 preclude any other agency or officer of this state or its subdivisions or any other person
21 from instituting proceedings, whether civil or criminal, as may be appropriate now or in
22 the future.

23 6. William F. Woodbury, who holds the title of Senior Attorney of
24 Auto-Owners Insurance Company and Owners Insurance Company, is authorized to
25 enter into this Order for them and on their behalf.

AUTO-OWNERS INSURANCE COMPANY

OWNERS INSURANCE COMPANY

1-5-01

Date

By: William F. Woodbury

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COPY of the foregoing mailed/delivered

this 18th day of January , 2001, to:

- Sarah Begley
Deputy Director
- Mary Butterfield
Assistant Director
Consumer Affairs Division
- Paul J. Hogan
Chief Market Conduct Examiner
- Deloris E. Williamson
Assistant Director
Rates & Regulations Division
- Steve Ferguson
Assistant Director
Financial Affairs Division
- Alexandra Shafer
Assistant Director
Life & Health Division
- Nancy Howse
Chief Financial Examiner
- Terry L Cooper
Fraud Unit Chief

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